

October 25, 2011

Beverly Brandt, Chief
Bureau of Health Facilities and Services Development
South Carolina Department of Health and Environmental Control
Heritage Building, Suite 201
1777 St. Julian Place
Columbia, SC 29204



Subject: Follow-up to Project Review Meeting - Establishment of a home health agency restricted to serve Beaufort County; Tri-County Home Health Care & Services, Inc. at
1) 1800 Paris Avenue (Port Royal), Beaufort, SC 29935
2) 460 William Hilton Parkway, Suite F-1 (Hilton Head), Beaufort, SC 29926
3) 1788 Sea Island Parkway (St. Helena Island), Beaufort, SC 29920

Dear Ms. Brandt:

The Tri-County team wishes to thank you and the Project Review Committee members for the opportunity to meet with you on October 11, 2011.

We also appreciate the opportunity to provide you with this follow-up letter. We believe our file is complete and includes all of the pertinent and required information to evaluate our application. Therefore, in this letter we are sharing our thoughts regarding what we believe are the most important issues that need to be considered in making the best selection of a new home healthcare agency to serve Beaufort County. We are framing our comments around the review criteria, providing key questions that we believe the Department will consider in making that selection.

During the project review presentation, the other applicants struggled to answer the uniform question as to why there is an unmet need and what the applicant would do to address it. As evidenced in our presentation, Tri-County's entire proposal reflects a comprehensive analysis of the unmet need in Beaufort County and a superior proposal to meet that need.

1. Compliance with the Need Outlined in the 2010-2011 SC Health Plan.

Which applicants comply with the need in the Health Plan? All applicants agree that there is an established need for an additional home health agency in Beaufort County. Most applicants project a higher need than outlined in the Health Plan and arrive at similar utilization projections in Year 3. However, not all applicants provided clear assumptions and explanations of how they calculated their utilization projections. At the project review meeting, several applicant projections showed a doubling of patients from Year 1 to Year 3 and stated the resulting increase was from population growth. This cannot be the case. The population growth does not support such dramatic utilization increases. In our file, we submitted two projections of utilization and financials, the first based exclusively on the need in the Health Plan and the second – "More Likely" Scenario – based on new 2010 Census data, a target of reaching the 2009 state average HH utilization (not 75% of it) and an estimate of Tri-County's market share. Our assumptions and need methodology are clearly stated in our application. In assessing which application most fully complies with the need in the Health Plan, DHEC should assess the reasonableness and reliability of the need methodologies of each applicant.

2A. Community Need Documentation – 2a. The target population should be clearly identified as to the size, location, distribution, and socioeconomic status (if applicable).

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Which applicants clearly analyzed the demographics and demonstrate an understanding of the population needs? Tri-County's application proposed a service model that we believe best meets the needs of Beaufort County. Tri-County presented extensive analysis that shows the region north of the Broad River is much more disadvantaged than the region south of the Broad River and that all of the existing agencies are located on the south side where there is a much more affluent population. Tri-County is proposing two home health offices on the north side and one office on the south side because we firmly believe that a solid commitment is necessary to address the severe underutilization of medical services in general and home health services in particular in Beaufort County. Because the SC Health Plan requires a commitment by a home health applicant to serve all residents of a county, we believe that having an office south of the Broad River as well as north of the Broad River is the best way to ensure an applicant will be able to meet that requirement. During the project review meeting, you asked about Tri-County's level of commitment to maintaining three offices. Attached is a letter from Ron Young, the CEO of Medical Services of America, which provides his personal assurance to this commitment.

2B. Community Need Documentation – 2b. Projections of anticipated population changes should be reasonable and based upon accepted demographic or statistical methodologies, with assumptions and methodologies clearly presented in the application. The applicant must use population statistics consistent with those generated by the state demographer.

Were population projections reasonable? We used population projections provided by the SC state demographer. Claritas was used to access more current census data and data by zip code. The other applicants appear to have used reasonable projections, also.

2C. Community Need Documentation – 2c. The proposed project should provide services that meet an identified (documented) need of the target population. The assumptions and methods used to determine the level of need should be specified in the application and based on a reasonable approach as judged by the reviewing body. Any deviation from the population projection used in the state health plan should be explained.

Which applicants are proposing services based on a reasonable analysis? All applicants propose to provide the full range of home health services; however, not all based their need on reasonable and/or fully disclosed assumptions, as we note in paragraph #1 above. During Project Review, there was some discussion about pediatric home health. Tri-County currently serves pediatric patients and will provide the same service in Beaufort County. The Health Plan shows only 22 pediatric patients served with home health care in 2009; even if there is unmet need, the overall pediatric demand would be very low.

2D. Community Need Documentation – 2e. Current and/or projected utilization should be sufficient to justify the expansion or implementation of the proposed service.

Which applicants are projecting sufficient utilization to justify the service? All seem to project sufficient utilization to generate a positive net income in Year 2 and 3. Only a few (including ours) justify the expansion at the need in the Health Plan, which is a much lower utilization.

2E. Acceptability – 4a, the proposal and applicant should have the support of "affected persons" (including local providers and the target population). The lack of opposition should not be considered support for the purposes of these criteria.

Which applicants have sufficient support of "affected persons?" The current Health Plan significantly changed the requirements for "letters of support" and the Home Health standards no longer require letters from providers to state an expected number of referrals. Nevertheless,

Tri-County has a sufficient number of letters of support from significant providers and community leaders. In addition, a number of providers specifically stated their expectation to refer a specific number of patients to Tri-County and this number of referrals totals 100-188 per month. These sources of referrals alone exceed Tri-County's projected utilization and the need identified in the South Carolina Health Plan.

Further, it should be noted that Tri-County has received numerous letters of support from community leaders supporting the multi office proposal. For example:

Mitch Malizia, RN of Helena House states: *"The strategic locations of these offices will allow Tri County Home Health Care and Services' ability to serve the entire county in an efficient fashion, reaching a clientele that is currently challenged from an accessibility standpoint."*

Samuel Murray, Mayor of Port Royal states: *"To learn that Tri-County will be addressing access for "ALL" residents by establishing at least two offices located on either side of the Broad is a very prudent action in ensuring Beaufort County residents have access to home health."*

Mark O'Neal, Jr., President and Chief Executive Officer of Hilton Head hospital states: *"Tri County's proposal to establish a minimal of two offices in Beaufort County is a wise and practical strategy. Beaufort County, as you may know, is filled with many geographic obstacles limiting the ability for one to drive throughout the county. By establishing offices on either side of the Broad River will help in reaching all residents of Beaufort County."*

Lastly, we want to note that by letter to DHEC dated October 13, 2011, the CEO of Beaufort Memorial Hospital has affirmed the need for an additional home health agency in Beaufort County and states the hospital's support of all applicants.

2F. Acceptability – 4b. Where documented opposition exists to a proposal, such opposition will be considered along with the application.

We are aware of no opposition from the community.

2G. Distribution – 3a. Duplication and modernization of services must be justified. Unnecessary duplication of services and unnecessary modernization of services will not be approved.

Is there any duplication of services? DHEC has determined there is a need for a new home health agency in Beaufort County based on, what we believe, is a very conservative methodology. The existing agencies will likely consider this a duplication of services; however, we believe their neglect of the north side of the County and reported reluctance to accept all referrals has created the need identified in the Health Plan and thus the addition of a new home health agency is fully justified. Furthermore, we project existing providers can experience growth in volume when Tri-County enters the market.

2H. Distribution – 3b. The proposed service should be located so that it may serve medically underserved areas (or an underserved population segment) and should not unnecessarily duplicate existing services or facilities in the proposed service area.

Which applicants are locating their offices to serve MUA's? At the meeting, nearly all applicants agreed that the office location was important. Clinical staff members need to visit their office regularly and the presence of a physical office provides community linkages and recognition of home health services. Tri-County is proposing to open three fully functional offices, strategically located to provide better access to all residents of Beaufort County. Two of the offices will be in the northern side of the Broad River where nearly all of the area is

designated as a federal MUA and where there are no existing home health offices. Tri-County believes these physical presences are important to promote and improve utilization of home health services and to help with the recruitment and retention of staff.

2I. Distribution –3c. The location of the proposed service should allow for the delivery of necessary support services in an acceptable period of time and at a reasonable cost.

Which applicants demonstrate superior response time and cost? Most applicants indicated they would employ staff members who live in various parts of the county and the staff would basically work out of their home. Using this logic, the HH office could be based in Georgia or Tennessee. Tri-County's experience indicates a conveniently located home health office is needed to provide support to staff and that staff prefer the office to be within a reasonable drive time from their home. Because of the need for staff to travel frequently to the agency's office, office location is critical and further facilitates staff recruiting. This is particularly true because agencies typically do not pay for time or travel between a worker's home and the agency's office.

The three office approach provides the strategic logistics to allow Tri-County to implement its utilization growth plan by allowing Tri-County staff and personnel to be within a drive times of 9-36 minutes throughout the county. This also incorporates improved recruiting efforts by focusing on staff residing in close proximity to one of the three office locations. These drive times would substantially improve access when compared with existing HH providers and other applicants under consideration.

In terms of cost, 80-90% of most home health care patients are covered by Medicare and/or Medicaid, which sets uniform reimbursement for all home health agencies. So there is no significant difference in cost for care. In terms of operating costs or expenses, we have shown that our proposed three-office approach is financially viable.

The operation of three smaller offices is not three times more expensive than one larger office. Tri-County's financial analyst prepared an analysis of the cost of operating three offices versus one central office and his analysis is attached. In summary, it shows the additional operating costs of the three offices is \$56,235 and the additional capital costs is \$1,500. The additional cost is for personnel (\$51,427) and rent (\$4,808). However, the analysis shows significant savings of \$8,906 in paid travel time for staff in driving to closer offices in the three-office approach. Thus, our analysis indicates the three-office approach has a net incremental cost of \$48,829 out of our projected total expenses of \$903,077 in Year 3, which is 5% of expenses. We believe this is a very small incremental cost in order to address the severe unmet need in Beaufort County and to serve all the residents and to improve access to all residents.

In order to assess the reasonableness of costs between the applications, we created a comparison shown in the table below. Of the applicants with experience providing a full-range of home health services, Tri-County has the lowest cost to the patient as measured in net revenue per patient and is the most cost effective as measured in total expense per patient.

Beaufort County CON Applicant Comparison								
For Year 3:	St Joe	Community	NHC	Gentiva	Liberty	Interim	United	TriCounty
Net Revenue/Patient	\$2,736	\$4,024	\$5,500	\$3,513	\$3,320	\$1,483	\$3,221	\$2,313
Total Expense/Patient	\$2,368	\$3,731	\$5,128	\$2,991	\$3,200	\$1,391	\$3,103	\$1,967

Source: Derived from the CON Application Review Summaries distributed by DHEC

2J. Distribution –3f. The applicant should address the extent to which all residents of the area, and in particular low income persons, racial and ethnic minorities, women, the elderly, handicapped

persons, and other medically underserved groups, are likely to have access to those services being proposed.

Which applicants accept all referrals? At the meeting, all stated they do. However, some applications show a much lower projection for indigent care in their financial projections. Others did not separately identify indigent care in their payor mix. Tri-County provides home health services to patients within its geographic area regardless of age, creed, race, sex or social-economic status. It is the policy of Tri-County to accept all patients who require its services, without regard to their ability to pay for such services.

2K. Medically Underserved Groups – 31a. The applicant should address the contribution of the proposed service in meeting the health needs of members of medically underserved groups which have traditionally experienced difficulties in obtaining equal access to health services (e.g. low income persons, racial and ethnic minorities, women, the elderly, and handicapped persons), particularly those needs identified in the applicable state health plan as deserving of priority.

Which applicant has demonstrated its intent to meet the needs of medically underserved groups? The northern side of Beaufort County, particularly St. Helena and Sheldon, is designated by the Federal government as “medically underserved” and is served by substantially fewer physicians than are available south of the Broad River. Tri-County is the only applicant with an office location specifically intended to address the needs of the substantial population of medically underserved residents on the barrier islands north of the Broad River. Tri-County’s three offices will better meet the needs of patients with limited access to health care.

2L. Medically Underserved Groups – 31d. Consideration should be given to the extent to which Medicare, Medicaid, and medically indigent patients are served by the applicant.

Which applicants are focusing on Medicare, Medicaid, and indigent patients? All applicants have projected a similar Medicare and Medicaid payor mix. As noted, some applicants did not include indigent care in project payor mix. Tri-County’s three-office approach is the only proposal that demonstrates the intent to serve Medicare, Medicaid, and medically indigent patients. Tri-County is currently participating in all four Medicaid care plans: Absolute Total Care, Blue Choice Health Plan, Select Health of SC, and United Healthcare Community Plan of SC. Additionally, it serves U.S. military retirees and family by participating with the Tri-Care program. The others simply say they will. Tri-County is prepared on opening day to address access by having existing provider relationships with the insurance programs more likely to cover the residents of Beaufort County.

3A. Record of the Applicant – 13a. The applicant’s record should be one of successful operation with adequate management experience.

Which applicants have the strongest record of successful home health operation? All of the applicants except one have experience in providing full-service home health care. However, not all have a track record with the type of populations we have in South Carolina. Additionally, some applicants provide home health care as a secondary business to their hospitals or nursing homes. The new agency in Beaufort County cannot succeed without referrals from hospitals and nursing homes in the county. If an agency is owned by a hospital or nursing home, it is reasonable to assume that referrals from competitors would be limited. For instance for the last published report available (2008), in Chatham County (home to Savannah), St. Joseph/Chandler only received 21 patients referred from the other hospital in Savannah out of its 673 total patients (3%). Tri-County is an independent home health agency and is not a subsidiary of a

hospital or nursing home. It has a proven track record of establishing home health services in SC and has a strong referral-base in the existing markets it serves (27% market share in 2009).

3B. Record of the Applicant – 13b. The applicant should have a demonstrated ability to obtain necessary capital financing.

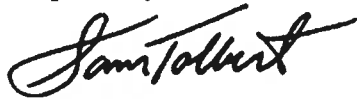
Which applicants have demonstrated the ability to finance the project in the short-term and long-term? All of the applicants, except the one that is a franchise, appear to have sufficient financial backing to fund the proposed project. All but one, are proposing capital cost in \$70,000-100,000 range, which appears to be a cost-effective funding level. The applicant with the highest capital budget (\$264,133) also includes a significantly higher utilization projection. We believe that such a high capitalization and high utilization would be financially risky should the utilization not be met.

3C. Financial Feasibility – 15. The applicant must have projected both the immediate and long-term financial feasibility of the proposal. Such projection should be reasonable and based upon accepted accounting procedures.

Which applicants have proposed a financially viable project? Most of the applicants have created financial projections that demonstrate a viable project in the second and third year of operation. Tri-County's projections show viability at the higher volume "More Likely" Scenario and at the lower need in the Health Plan and both projections include the full costs of operating three offices.

If you have any questions or require further information, please let me know.

Respectfully submitted,



Sam Tolbert

cc: Jo Milling, RN, Tri-County Administrator

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